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# Summary of Benefits for PERS Plan 3

<b>Defined Contribution Account</b>	Your member contributions are deposited in a defined contribution account. That money is invested according to your instructions and you can take payment of that account any time you terminate from all covered employment (see pages 4 and 7).
<b>Contribution Rates</b>	Contributions to PERS Plan 3 are mandatory. Under current federal law, once you select a contribution rate you cannot change it unless you change employers. Currently, there are six contribution rate options (see page 4).
<b>Gain Sharing</b>	PERS Plan 3 members may receive gain sharing payments in January of even-numbered years if eligible (see page 6).
<b>Defined Benefit Formula</b>	$1\% \times \text{Service Credit Years} \times \text{AFC} = \text{Monthly Benefit}$ (see page 13).
<b>Eligible for Retirement</b>	<p>Plan 3 provides for an unreduced retirement benefit at age 65 if you have:</p> <ul style="list-style-type: none"> <li>• At least 10 service credit years; or</li> <li>• Five service credit years, including 12 service credit months that were earned after age 54; or</li> <li>• Five service credit years earned in PERS Plan 2 prior to June 1, 2003.</li> </ul> <p>A reduced benefit is available as early as age 55 (see page 12).</p>
<b>How Service Credit is Accumulated</b>	Service credit is based on the total compensated time reported by your employer to DRS on your behalf (see page 9).
<b>Service Credit for Military Time</b>	You may be eligible to receive service credit for time spent in the military. To qualify you must have left retirement-covered employment to enter the military (see page 10).
<b>Average Final Compensation or AFC</b>	Your AFC is the monthly average of your 60 consecutive highest-paid service credit months. Not included are lump sum payments for unused sick leave, unused vacation or annual leave, or any form of severance pay (see page 13).
<b>Disability Retirement</b>	If you become totally incapacitated for continued employment with a covered employer, and leave that employment as a result of a disability, you may be eligible for a disability retirement benefit (see page 15).
<b>Cost of Living Adjustment</b>	On July 1 of every year following your first full year of retirement, your monthly defined benefit will be adjusted by the percentage change in the Consumer Price Index (CPI-U, Seattle), to a maximum of three percent per year (see page 15).
<b>Temporary Duty Disability</b>	You may be eligible to receive up to 12 months of service credit while on leave for a duty disability (see page 10).
<b>Health Insurance Coverage</b>	If you are qualified for Public Employees Benefits Board (PEBB) health insurance coverage, you must elect PEBB coverage within 60 days of separation from employment; and be 55 years of age and have 10 years service credit (see page 19).
<b>Death in Service Survivor Benefit</b>	<ul style="list-style-type: none"> <li>• If you die before you have initiated payment from your defined contribution account, your beneficiary will receive the balance in that account (see page 8).</li> <li>• If you die before you retire, your surviving spouse, or if none, your minor children will receive a defined benefit (see page 16).</li> </ul>

# Plan 3

**P**ublic Employees' Retirement System (PERS) Plan 3 was created by the Washington State Legislature, and became effective on March 1, 2002.

## **PERS Plan 3 is composed of two separate retirement benefit components**

PERS Plan 3 has a dual benefit structure. Member contributions finance a defined contribution component, and employer contributions finance a defined benefit component.

The member-financed, defined contribution component provides an investment program you may access any time you separate from covered employment. The amount of retirement income generated by the defined contribution component depends on how much you contribute and the performance of your investments. You must choose how much you contribute, where your contributions are invested, and how and when you take payment.

The employer-financed, defined benefit component, provides for a lifetime monthly benefit at age 65, or a reduced lifetime monthly benefit as early as age 55. Reduction factors vary based on the number of service credit years and your age. The benefit amount is based on your years of service credit and your average final compensation. Your benefit amount could be affected if you choose a benefit option (see pages 13 and 14).

## **Am I a member of the plan?**

**B**enefits in PERS Plan 3 are for PERS Plan 2 members who transfer during their transfer window or subsequent Januarys, and new employees who choose or default to PERS Plan 3.

## **Transfers**

- **State agency and higher education employees** - Your initial transfer window is March 1, 2002 through August 31, 2002.
- **Local government employees** - Your initial transfer window is September 1, 2002 through May 31, 2003.

If you do not transfer during your transfer window, you will have an annual opportunity to transfer to PERS Plan 3 in January of each year.

## **New Employees**

- **State agency and higher education employees** - If you were first hired into an eligible position on or after March 1, 2002.
- **Local government employees** - If you were first hired into an eligible position on or after September 1, 2002.

You have 90 days from your date of eligibility to make a decision. Your employer reports you in PERS Plan 2 until you make a choice. If you don't choose, you default into PERS Plan 3.

## **Membership exclusions**

If you are already receiving retirement or disability benefits from a Washington state retirement system, you may be prohibited from joining this Plan. If this applies to you, contact Department of Retirement Systems (DRS) (see page 20 for a list of contact telephone numbers).

## **Elected officials, governor appointees, city managers, and chief administrators for ports, counties, and P.U.D.s**

These officials and administrators have the option to be covered under PERS. If they wish to be covered they must contact DRS.

## **Summary description**

This book provides a summary of the rules governing your retirement plan. The actual rules governing your benefits are contained in state retirement laws. This handbook is a summary, written in less legalistic terms. It is not a complete description of the law. If there are any conflicts between what is written in this handbook and what is contained in the law, the applicable law will govern.

# Plan 3 Defined Contribution

## Your contributions finance this component of Plan 3

Financed entirely by the money you contribute, the defined contribution component of Plan 3 provides you with the means to build a personal retirement account.

### What is a defined contribution plan?

A defined contribution retirement plan is one in which your benefit is based entirely on the amount you contribute and the performance of the investments you choose. Contributions may be deducted from your salary before taxes and are invested on your behalf. Check with your employer to find out if your contributions are tax-deferred. Investment returns (both gains and losses) are tax-deferred. They are credited to your account as long as you have money in the Plan.

### Highlights

- You have several options for the amount of money you contribute. Once chosen, your contribution rate can be changed only if you change employers.
- Your personal retirement account increases or decreases based on the performance of your investments.
- You may receive gain sharing payments in January of even numbered years, if eligible.
- You can choose between two investment programs: the Washington State Investment Board (WSIB) Investment Program or the Self-Directed Investment Program.
- DRS has contracted with a record keeper, currently International City/County Management Association Retirement Corporation (ICMA-RC), to maintain records of individual member accounts and send out quarterly statements. In most cases you will contact the record keeper directly to obtain account information.
- You may elect to take payment from your defined contribution account any time you separate from covered employment.

- Taking payment of your contributions has no effect on your defined benefit component of Plan 3. Once you meet the Plan's service credit and age requirements, you are eligible for a defined benefit payment.

### How much am I required to contribute?

Contributions to your retirement plan are mandatory. Under federal law, once you select a contribution rate you cannot change it unless you terminate employment, change employers and re-enter PERS-covered employment. Currently, there are six contribution rate options:

- Option A: 5% fixed rate at all ages
- Option B: 5% up to age 35  
6% ages 35 through 44  
7.5% ages 45 and older
- Option C: 6% up to age 35  
7.5% ages 35 through 44  
8.5% age 45 and older
- Option D: 7% fixed rate at all ages
- Option E: 10% fixed rate at all ages
- Option F: 15% fixed rate at all ages

### Choosing a contribution rate

If you become a PERS Plan 3 member by transferring from PERS Plan 2, or if you are a new member who irrevocably chooses PERS Plan 3, you must decide your rate option at the time you choose Plan 3.

If you changed employers or are a returning Plan 3 member, you have 90 days from your date of hire to make a rate option election.

If you do not select a rate option within 90 days, the law requires that Option A be assigned automatically. Refer to the *Contribution Rate Bro-*

chure available through the record keeper or your employer (see page 20).

### **Limitations on annual contributions**

Under Internal Revenue Code, PERS Plan 3 is a qualified 401(a) program. Contributions to PERS Plan 3 are mandatory. If your contributions are tax-deferred (consult your employer) and you are participating in other tax-deferred plans, be aware that your tax-deferred contributions can be limited based on your annual taxable income. Remember, tax-deferred contributions further decrease your taxable income. Consult the Internal Revenue Service (IRS) and/or a tax adviser for detailed information.

## **How will my contributions be invested?**

Under PERS Plan 3 you may choose between two separate investment programs. They are the WSIB Investment Program and the Self-Directed Investment Program.

### **The WSIB Investment Program**

The WSIB Investment Program enables you to invest in the Total Allocation Portfolio (TAP), a portfolio with an asset allocation that is determined, managed and continuously rebalanced by the WSIB. If you do not select an investment program, your contributions will automatically be directed to this program.

### **Self-Directed Investment Program**

The Self-Directed Investment Program enables you to design your own investment portfolio from a menu of funds, or to choose one of three pre-set portfolios, called Horizon Funds. These pre-set portfolios are balanced funds with asset allocations that target different risk levels and investment time horizons.

If you choose the Self-Directed Investment Program, you must contact the record keeper and establish your investment allocation. Use the auto-

mated phone line, Internet, or speak with a customer service representative to choose which self-directed fund(s) you want your contributions invested in. If you select the Self-Directed Investment Program and do not set up an allocation, your contributions will be invested in the Money Market Fund.

You can learn more about the WSIB and Self-Directed Investment Program by obtaining a copy of the *Plan 3 Investment Guide* from your employer or the record keeper (see page 20).

### **How you select an investment program**

When you become a member of PERS Plan 3, you use the Member Information Form to select the investment program where your contributions will be invested. You can contribute to only one of the two investment programs at a time. If you wish to change the investment program to which you are contributing, complete a Plan 3 Change of Investment Program Form and return it to your employer. Both of these forms are available on the DRS Web site or through your employer (see page 20).

### **How you transfer account balances between investment programs**

Though you can contribute to only one of the two investment programs at a time, you may have investments in both programs. If you wish to move all or a portion of the balance of your investment account between investment programs, contact the record keeper (see page 20).

## **How is the value of my defined contribution account determined?**

There is no benefit formula used to calculate the value of your defined contributions. The value of your account will be based entirely on the amount you contribute and the performance of the investments. As in any investment, there is an element of risk.



## How the WSIB Investment Program values its funds

The WSIB values the TAP once each month. Since the WSIB Investment Program is composed of a variety of investment vehicles, its value is measured by the composite worth of the fund's entire portfolio as determined by the current market value of each investment. Your contributions are converted to shares in the fund. The cost of a share is based on the composite value of the fund at the time the share is purchased. Share value increases or decreases at the same rate as the TAP.

## How the Self-Directed Investment Program values its funds

Within the Self-Directed Investment Program, member portfolios are valued daily. There are a variety of investments available through the Self-Directed Investment Program. Each investment is valued separately based on its current selling price in the market.

## How your retirement contributions are processed

Your employer transmits your contributions and member data to DRS at a minimum on a monthly basis. Under state law, employers are required to provide DRS with member contributions and data by the 15th of the month following the month in which the contributions were deducted from your paycheck.

Both investment programs incorporate a Short-Term Investment Fund (STIF) where contributions are placed and begin earning interest. When individual member contributions (reported by an employer) are reconciled with the cash DRS receives from the employer, the process of moving your contributions into your investment program begins.

Depending on your employer's reporting schedule and your choice of investment program, there will be some variation in the time it takes for contributions to move between the STIF and your invest-

ment allocation. For more information about how your investments are processed, refer to your *Plan 3 Investment Guide* (see page 20).

## Separate quarterly statements are issued for each investment program

WSIB Investment Program account statements are issued 45 days after the end of the quarter. Self-Directed Investment Program account statements are issued 10 business days after the end of the quarter.

## What is gain sharing?

### Ongoing gain sharing

If the WSIB's earnings on PERS combined Plan 2 and Plan 3 fund assets average more than 10 percent annually over a four-year period, half of the amount over 10 percent will be passed on to Plan 3 members' defined contribution accounts based on each member's service credit. Gain sharing payments are made in January of even-numbered years and are deposited in members' defined contribution accounts.

To be eligible for a gain sharing payment, you must meet one of the following criteria:

- You must have earned service credit during the 12-month window from September 1 to August 31 of the year immediately preceding the distribution, and had a balance of at least \$1,000 in your member account on August 31 of the year immediately preceding the distribution; or
- be in receipt of the defined benefit component of PERS Plan 3; or
- be in receipt of the defined contribution component of Plan 3, and you must
  - (a) have completed 10 service credit years; or
  - (b) have completed five service credit years including 12 service months after age 54; or
- You must have a balance of at least \$1,000 in your member account on August 31 of the year immediately preceding the distribution,

and have completed five service credit years by March 1, 2002 and transferred to PERS Plan 3.

### **Retroactive gain sharing**

If you transfer to PERS Plan 3 during a transfer window applicable to your employer and your member account meets the requirements below, you will be credited with a retroactive gain sharing payment in June 2003:

- You must have earned service credit during the 12-month period from September 1 to August 31 immediately preceding the distribution and transferred to PERS Plan 3; or
- You must be in receipt of the defined benefit component of PERS Plan 3 and completed five service credit years by September 1, 2002 and transferred to PERS Plan 3; or
- You must be in receipt of the defined contribution component of PERS Plan 3 and have completed five service credit years by September 1, 2002, and have transferred to PERS Plan 3; or
- You must have had a balance of at least \$1,000 in your member account on June 1, 2003, and have completed five service credit years by September 1, 2002, and transferred to PERS Plan 3.

The June 2003 retroactive gain sharing payment, will include only the January 2000 gain sharing payment. There was no gain sharing payment for January 2002 because earnings on the PERS Plan 2 and Plan 3 trust fund assets did not average more than 10 percent over the previous four year period.

## **When can I access my defined contribution money?**

Your defined contribution investments are part of your retirement income. However, if you choose, you can elect to withdraw the funds in your PERS Plan 3 defined contribution account any time you separate from all PERS-covered employment. You may take payment under a variety of payment plans, including installments, lump sum or rollover,

which you design to fit your specific retirement goals. In addition, the Self-Directed Investment Program offers a lifetime annuity payment option.

To learn more about your withdrawal options, obtain the *Plan 3 Request for Withdrawal of Defined Contribution Funds* packet from your employer, or contact the record keeper (see page 20). The record keeper offers individualized consultations on payment plans via their toll-free customer service phone line.

### **Processing a withdrawal**

The withdrawal process, from the time you leave employment and submit your withdrawal request until you receive payment or the money is rolled over to a qualified account, usually requires 30 to 90 days. The length of time depends on your employer's reporting cycle, how long you have been separated from employment, the time of month you submit the request, and the investment program from which you are withdrawing.

### **Tax implications of withdrawing your defined contributions**

You will owe income tax on your tax deferred contributions and investment earnings when you withdraw funds from your defined contribution account.

The IRS requires that 20 percent of any lump sum or partial payment withdrawal of tax-deferred funds be withheld. If you are under age 59½ when you take payment, an additional 10 percent tax for early withdrawal may be assessed by the IRS when you file your annual tax return. All withdrawals paid to you are reported to the IRS as earnings in the year the withdrawals are paid.

If you wish to avoid the withholding tax and 10 percent additional tax, you may roll the funds directly into a tax-deferred retirement account, or a qualified employer-sponsored retirement plan.

For more information about withdrawing your defined contribution money and the associated tax requirements, obtain a copy of Publication 575,

*Pension and Annuity Income*, from the IRS. To initiate a withdrawal or rollover, obtain a copy of *Plan 3 Request for Payment of Defined Contribution Funds* booklet, by contacting the record keeper (see page 20).

## **If I leave PERS employment, can I leave my contributions in the Plan?**

**I**f you leave covered employment, you can leave your defined contribution money in the Plan.

As long as you have a balance in your defined contribution account, its value will continue to rise or fall depending on investment performance.

Federal law requires that you begin receiving a minimum amount from your retirement account by April 1 of the year after you reach age 70½, or when you retire, whichever comes later. The portion of your account that you must receive cannot be rolled over. The options you have for receipt of the money are outlined in the *Plan 3 Request for Withdrawal of Defined Contributions* booklet.

If you leave covered employment and leave your defined contributions in the Plan, be sure to inform the record keeper of any name, address and beneficiary changes (see page 20). You will continue to receive quarterly statements and be able to move your money between investments.

## **What happens if I die before I receive my defined contributions?**

### **If you die before initiating payment**

**I**f you die before initiating any payment plan from your defined contribution account, and your beneficiary is your spouse, your spouse has the right to take payment in a lump sum or to roll over your defined contribution account into an approved Individual Retirement Account (IRA)

or a qualified employer retirement plan. Beneficiaries who are not spouses can not roll over defined contribution funds; they must take payment of the funds.

### **If you die after initiating payment**

If you die after initiating payment of your defined contribution account and you still have money in the account, your beneficiary should contact DRS to facilitate payment of the remainder of the funds. If retirement payments are derived from an annuity, the payments continue or stop based on the terms of the annuity.

### **Designating a beneficiary**

Keep your beneficiary designation records up-to-date with DRS. Members may have a different beneficiary for the defined contribution plan than the defined benefit plan.

If you marry, divorce or re-marry, you must file a new Beneficiary Designation Form, even if your beneficiary remains the same. If you fail to file a new Beneficiary Designation Form, or if you've never filed one, DRS automatically pays your surviving spouse, or if none, your estate. However, you should be aware that a former spouse may be able to attach your benefits under certain circumstances (see page 17).

To change your beneficiary, you must notify DRS in writing. Forms for this purpose are available on the DRS Web site, or can be obtained by writing to DRS or contacting your employer.



# Plan 3 Defined Benefit

## Your employer finances the benefits under this component of Plan 3

This section of the handbook describes your retirement benefits under the defined benefit component of PERS Plan 3.

### How does my defined benefit component work?

Under PERS Plan 3, the defined-benefit component is the benefit you receive at retirement that is based on the length of your service, age and average final compensation.

Your benefits under the defined benefit component of Plan 3 are funded by contributions made by your employer during your period of membership, and investment earnings from those contributions. Employer contributions are held in trust and invested by the WSIB.

### Highlights

- The defined benefit component of Plan 3 is financed by your employer's contributions.
- The defined benefit component provides for a lifetime monthly benefit based on a formula once you meet age and service requirements.
- Reduced benefits are available as early as age 55, if you have at least 10 service credit years.
- If you have at least 20 service credit years and separate from service, your pension benefit will be increased 0.25 percent per month, or approximately 3 percent for each year you delay receiving benefits until age 65.
- The Plan provides disability benefits and survivor benefits.

## How is my service counted?

### Service credit

The size of your retirement benefit depends upon your time in service and your average final compensation. "Service credit" is based on the total compensated time reported by your employer on your behalf.

### The service credit month

You receive one service credit month for each calendar month in which you earn compensation for 90 or more hours. No more than one service credit month can be obtained in any calendar month, even if you work more than 90 hours for each of two or more employers in a month. Beginning September 1, 1991,  $\frac{1}{2}$  service credit month is granted for any calendar month in which you received compensation for fewer than 90 but at least 70 hours in a calendar month. A  $\frac{1}{4}$  service credit month is granted for fewer than 70 hours in a calendar month.

Your service credit years at retirement will be calculated by dividing service credit months by 12.

### EXAMPLE:

#### Calculating service credit

Suppose you were hired April 1, 1980 and worked full-time until February 23, 1999, when you retired. In your final month of employment you are compensated for 88 hours. Your service credit would be as follows:

PERIOD	MONTHS
April 1980 through December 1980	9.0
January 1981 through December 1998	216.0
January and February 1999	1.5
TOTAL	226.5

$226.5 \text{ months} \div 12 \text{ months} = 18.88 \text{ years, or } 18 \text{ years and } 10.5 \text{ service credit months}$

### School Employees

If you are employed by the State School for the Blind, the State School for the Deaf, or an institution of higher learning, you may receive

12 service credit months for the school year (September 1 - August 31) if you:

- Are employed in an eligible position; and
- Begin working in September; and
- Earn compensation during at least nine months of the school year; and
- Have at least 810 hours of compensated employment during the school year.

As a school employee, you receive six service credit months for each school year if you:

- Are employed in an eligible position; and
- Begin working in September; and
- Earn compensation during at least nine months of the school years; and
- Have at least 630 hours but fewer than 810 hours of compensated employment during the school year.

If you earn compensation in fewer than nine months of the school year, you will receive service credit based on the number of hours compensated each month.

### **Dual membership**

You may be able to combine service credit with that earned in certain other Washington state retirement systems and 1st Class City Retirement systems in order to qualify for either regular or disability retirement. For more information on receiving service credit from other systems, see “What if I’ve Previously Been a Member of Another Retirement System?” on page 11, or see the *What is Dual Membership and How Does it Affect Me?* brochure, available on the DRS Web site (<http://www.wa.gov/drs/member/dualmbr.htm>).

### **Military service**

You may be eligible to receive up to five years of service credit for military service by paying member contributions for the time spent in the military. To qualify, you must have left covered employment to enter active military service on or after January 1, 1990, and within 90 days after

an honorable discharge applied for re-employment with the same employer. You must complete payment of these contributions prior to retirement, or within five years from the time you resume employment, whichever comes first.

### **Authorized leave of absence**

You may earn service credit for an unpaid leave of absence authorized by your employer. Pre-1990 military service falls under this category. Service credit for a leave of absence is limited to a maximum of two years during your working career. The service credit obtained by purchasing leave of absence is included in your retirement calculation. The compensation is not included in your retirement calculation.

To obtain service credit for unpaid leave, you must pay both member and employer contributions, including interest on employer contributions, for the time on leave. Contributions are based on the average of your compensation earnable at the time you were granted the leave and the time you resume your employment. Payment must be completed prior to retirement or within five years of returning to employment, whichever comes first. For more information on recovery of service credit for authorized leave, please call DRS (see page 20).

### **Temporary duty disability**

In some cases you can obtain service credit for work time missed while on temporary disability leave. For information on this subject, refer to the *PERS Disability Benefits* brochure or speak with a Retirement Services Analyst (see contact information on page 20). You can obtain a disability brochure from DRS or your employer. The brochures are also available on the DRS Internet site (<http://www.wa.gov/drs/member/pers/persdis.htm>).

## Can I recover PERS Plan 2 service credit now that I belong to PERS Plan 3?

If you withdrew contributions while in PERS Plan 2 and did not recover the lost service credit before becoming a member of PERS Plan 3, you can still recover that service credit and use it to qualify for retirement in PERS Plan 3.

There are two types of optional service:

- **Within the deadline** - You must repay your Plan 2 contributions within five years of first returning to eligible service after the withdrawal. You may complete repayment even if you leave public employment again, but you must meet the original five year deadline. For example: If you return as a member to PERS-covered employment, and became a PERS 3 member, you would have five years from your re-employment date to repay your Plan 2 contributions.
- **Outside the deadline** - If you miss the deadline, you can purchase the service credit. The cost for purchase after the deadline is based on the potential increase in your defined benefit payments.

When restoring within the deadline, all contributions will be placed in your Plan 3 defined contribution account. When purchasing service credit outside the deadline, the money is split equally between the defined benefit fund and your defined contribution account.

For an estimate of the cost for recovery, write or call DRS (see address, telephone and Web site information on page 20). Include your Social Security Number and address with your request.

## What if I've previously been a member of another retirement system?

### Dual membership

If job changes have caused you to establish membership in more than one Washington state public service retirement system, you may qualify as a dual member, even if you terminated membership in the other system(s).

You are a dual member if you:

- are currently an active member of PERS and have previously been a member of Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2, the Washington State Patrol Retirement System (WSPRS), or the Statewide City Employees' Retirement System (SCERS); and
- have never retired from service and are not currently receiving a disability retirement benefit from any public retirement system in the state of Washington.

### Service credit for dual members

As a dual member, you may combine service credit from any of the above systems to qualify for retirement.

When you combine service credit to achieve eligibility for retirement in one system, but you are not old enough to retire from a second system:

- you may postpone receipt of a retirement benefit from the second system until you are old enough to receive an unreduced benefit; or
- you may retire immediately with an actuarially reduced benefit (see "How does early retirement affect my benefit?" on page 15).

### Concurrent membership

If you are simultaneously employed in both a PERS-eligible position and a SERS-eligible position with different employers, how your service credit and average compensation are calculated

may be impacted. Contact DRS for more information.

#### EXAMPLE:

##### **Combined service credit**

Suppose you are an active PERS Plan 3 member, age 55, and have three PERS Plan 3 service credit years. If you also have seven service credit years in TRS Plan 2, you have a total of 10 service credit years -- enough to be eligible to retire with a reduced PERS Plan 3 benefit (see this page and page 13 for information about retiring at age 55, and for information about calculating a dual member benefit).

### **Restorations for dual members**

If you are a dual member and wish to restore service credit in a system other than PERS, you must repay the amount withdrawn, plus interest, within two years of becoming a dual member or before you retire, whichever comes first. To determine how much it will cost you to restore service credit from a DRS administrated retirement system, write or call DRS (see address and phone lists on page 20). If you worked for the city retirement system of Tacoma, Seattle or Spokane, please contact your former employer directly.

Include the following information:

- your name, Social Security Number, address and daytime phone number;
- the system(s) in which you want to restore service credit;
- the approximate dates of each withdrawal and the periods of employment each represents; and
- the name(s) of the employer(s).

Payment must be made by the deadline (within two years of becoming a dual member), or your service cannot be restored under this provision. The provisions governing dual membership do not permit you to:

- partially restore any single withdrawal; or

- restore contributions and re-establish service credit in a system in which you are currently a member unless you are otherwise entitled to do so.

### **Purchase of lost service credit outside the deadline**

It is still possible to purchase withdrawn or optional service credit after the statutory deadline has passed. The cost for purchasing service credit after the deadline date is considerably more expensive. You can learn more about purchase of service credit by obtaining the DRS brochure, *Can I Recover Withdrawn or Optional Service Credit?* on the DRS Web site (<http://www.wa.gov.drs/member/pers/prest.htm>) or by calling DRS (see page 20).

## **When can I retire?**

### **Eligibility**

**Y**ou are eligible to begin drawing your unreduced defined benefit if you are at least age 65 and have:

- at least 10 service credit years; or
- five service credit years, including 12 service credit months that were earned after age 54; or
- five service credit years that were earned under Plan 2 and transferred to PERS Plan 3 before June 1, 2003.

You may retire with a reduced benefit if you are at least age 55 and have:

- at least 10 years of service credit (your benefit will be "actuarially reduced"); or
- 30 or more service credit years (your benefit will be reduced by 3 percent per year for each year before age 65).

See "How does early retirement affect my benefit?" on page 14.

## How is my defined benefit calculated?

### Benefit formula

Your monthly defined benefit is calculated using the following formula: 1 percent x service credit years x average final compensation = monthly benefit. Average final compensation is the monthly average of your 60 consecutive highest-paid service credit months. Not included are lump sum payments for unused sick leave, unused vacation, annual leave, any form of severance pay, or an authorized leave of absence. There is no limitation on the number of years of service credit that can be included in the benefit calculation. Please contact DRS for more information (see page 20).

#### EXAMPLE:

#### Retirement at 65

Suppose you retire at age 65 with 32 service credit years, and your average final compensation is \$2,000.00. Your monthly retirement benefit will be \$640.00. Here is how it is calculated:

$1\% \times 32 \text{ years} \times \$2,000.00 = \text{monthly benefit}$

$1\% \times 32 \text{ years} = .32$

$.32 \times \$2,000.0 = \$640.00$

This example does not use a survivor option. It will be lower if you choose to continue benefits to a survivor upon your death.

### Calculating benefits for dual members

As a dual member, you may combine service credit earned in all dual member systems for the purpose of becoming eligible for retirement. If your combined service makes you eligible to retire under any dual member system, you may elect to retire from all dual member systems.

As a dual member, you may choose to have your average final compensation determined as follows:

- you can use the compensation in each system (as defined in that system) to determine that system's benefit, or

- you can use the highest "base salary" from any system, to determine the benefit in another system.

Base salary is the salary or wages you earned, excluding overtime, lump sum cashouts, severance pay and bonuses.

Dual members have the opportunity to restore previously withdrawn service credit. See the section entitled "Restorations for Dual Members" on page 12. For a detailed explanation of dual membership, call DRS and request the brochure, *What is Dual Membership and How Does it Affect Me?* or visit the DRS Web site (<http://www.wa.gov/drs/member/dualmbr.htm>).

#### EXAMPLE:

#### Dual member benefits

Suppose you are 65 years old and have three service credit years with PERS Plan 3 and 13 service credit years with TRS Plan 2. Without dual membership, your PERS service would be too short to earn a PERS benefit. With dual membership, you will receive a benefit from each plan, calculated according to the rules of each system as follows:

#### PERS Plan 3:

$1\% \times 3 \text{ years PERS service credit} \times \text{average final compensation} = \text{PERS benefit}$

#### TRS Plan 2:

$2\% \times 13 \text{ years TRS service credit} \times \text{average final compensation} = \text{TRS benefit}$

## What are my benefit options?

When you apply for a service or disability retirement, you must select a benefit option. If you are married, the law requires that you provide the written consent of your spouse for the benefit option you choose. This consent must be witnessed by a notary. If consent is not provided, the law requires that an Option 3 benefit be paid



with your spouse as survivor. Service and Disability Retirement Applications contain the Spousal Consent Authorization.

#### Option 1

##### **Standard option**

This option pays you a benefit for your lifetime only.

#### Option 2

##### **Joint and 100 percent survivorship**

Under this option, you receive a benefit that is actuarially reduced. If your designated beneficiary survives you, the benefit amount remains the same and your beneficiary continues to receive it for his or her lifetime. If you retire and you survive your beneficiary, be sure to notify DRS so your benefit payments can be adjusted to the Option 1 level on the first of the month following the date of death of your beneficiary.

#### Option 3

##### **Joint and 50 percent survivorship**

This option also provides a benefit that is actuarially reduced, but the reduction is smaller than in Option 2. If your designated beneficiary survives you, 50 percent of your benefit is paid to your beneficiary for his or her lifetime. If you retire and you survive your beneficiary, be sure to notify DRS so your benefit payments can be adjusted to the Option 1 level on the first of the month following the date of death of your beneficiary.

#### Option 4

##### **Joint and 66.67 percent survivorship**

This option also provides a benefit that is actuarially reduced. The reduction is smaller than in Option 2, but larger than in Option 3. If your designated beneficiary survives you, 66.67 percent of your benefit is paid to your beneficiary for his or her lifetime. If you retire and you survive your beneficiary, be sure to notify DRS so your benefit payments can be adjusted to the Option 1 level on the first of the month following the date of death of your beneficiary.

### **Lump sum payment instead of monthly benefit**

If your monthly benefit under Option 1 would be less than the indexed amount (as of February 2, 2002, the indexed amount is \$119.41) payment may be made in a lump sum at the discretion of the member. Anyone receiving such a payment is considered retired from PERS. This provision is likely to apply only to members who retire early due to disability or with minimal service credit.

### **Changing a beneficiary or benefit option after retirement**

Once you retire, you may change your benefit option and beneficiary only by returning to active membership for two consecutive years of uninterrupted service, except in the following circumstances:

- If you choose a survivor option (2, 3 or 4), and your designated beneficiary dies before you, be sure to notify DRS. Your retirement benefit will be adjusted to the higher Option 1 payment level.
- If you choose a survivor option (2, 3 or 4) and name someone other than a spouse to be the beneficiary, you can change to Option 1 after retirement.
- If you choose Option 1, then marry and remain married for at least one year, you may change your benefit option and name your spouse as beneficiary. To qualify, you must apply for the benefit option change between your first and second year of marriage. If you choose a survivor option, your monthly benefit will be actuarially reduced.

### **How does early retirement affect my benefit?**

If you have at least 10 service credit years, you may retire as early as age 55. Your benefit is actuarially reduced to reflect the fact that you are likely to be receiving your benefit over a longer period of time. Reductions are based on the length of time before age 65 that your benefits begin. Once you have 30 years

of service credit, the benefit reduction is set at 3 percent per year that you are under age 65.

Actuarially reduced means benefit payments are reduced based on factors provided by the Office of the State Actuary. These factors are derived from statistics about life expectancy and projections about the Plan's investment earnings. An actuarial reduction is necessary when benefits are scheduled or guaranteed to be paid over a longer period of time.

The table below shows the approximate annual reductions in effect when this handbook was published in 2002. Your benefit is determined by the percentage in effect at the time your benefits begin.

*Actuarial figures in the middle column are updated periodically. The figures for members with at least 30 years of service (right column) are set in statute.*

Age at retirement	<u>10 to 29 years</u> <u>Service Credit</u> Benefit as a percentage of what you would receive at age 65	<u>30+ years</u> <u>Service Credit</u> Benefit as a percentage of what you would receive at age 65
55	35%	70%
56	39%	73%
57	43%	76%
58	47%	79%
59	52%	82%
60	58%	85%
61	64%	88%
62	72%	91%
63	80%	94%
64	89%	97%
65	100%	100%

### Delaying receipt of your benefit if you have 20 years of service credit

If you have at least 20 or more years of service credit and separate from service, your pension benefit will be increased 0.25 percent per month, or approximately 3 percent for each year you delay receiving benefits until age 65.

#### EXAMPLE:

#### Retirement at age 60

Suppose you retire at age 60 with 25 service credit years and average final compensation of \$2,500.

$$\begin{aligned}
 1\% \times 25 \text{ years} &= 0.25 \\
 0.25 \times \$2,500 &= \$625.00 \\
 \$625 \times 58\% &= \$362.50
 \end{aligned}$$

#### Delaying your benefit

Suppose you quit working at age 60 with 25 years of service credit, but delay receiving your benefit until age 65. Because you have at least 20 years of service credit, your benefit will increase by approximately 3 percent for each year that you delay receiving it (calculated at 0.25 percent per month). In addition, since you delayed receiving your benefit until age 65, there is no reduction for early retirement.

Monthly benefit at age 65:

$$\begin{aligned}
 1\% \times 25 \text{ years} \times \$2,500 &= \text{monthly benefit} \\
 1\% \times 25 \text{ years} &= 0.25 \\
 0.25 \times \$2,500 &= \$625.00 \\
 \text{Plus } 0.25 \text{ percent increase per month, between} \\
 \text{age 60 and age 65} &= \$726.01
 \end{aligned}$$

## Can my benefit increase after I retire?

On July 1 of every year following your first full year of service or disability retirement, your monthly benefit will be adjusted by the percentage change in the Consumer Price Index (CPI, Seattle), to a maximum of 3 percent per year.

## Can I qualify for a disability benefit?

### Eligibility for disability retirement

If you become totally incapacitated for continued employment as a result of the disability, you may be eligible for a disability retirement benefit.

There is no minimum service credit requirement for this benefit. Though benefits will not be paid until you have separated from service, DRS suggests that you apply for disability prior to terminating employment.

If you are receiving a disability retirement benefit, you will be subject to comprehensive medical examinations as required by DRS. If these examinations reveal that you have recovered from your disability, and you are offered employment at comparable pay, you will no longer be eligible to receive a disability retirement benefit.

### **Disability retirement benefit**

The disability retirement benefit, including survivor options, is calculated using the same formula as a service retirement benefit, described on page 12. If you are not at least age 65, the benefit is actuarially reduced to reflect your age at the time benefits begin. You can learn more about PERS disability benefits by reading the *PERS Disability Benefits* brochure that is available on the DRS Web site or by contacting DRS (see page 20).

### **Temporary Duty Disability**

For more information see “Temporary Duty Disability” on page 10, or the *PERS Disability Benefits* brochure available on the DRS Web site (<http://www.wa.gov/drs/member/pers/persdis.htm>).

## **What benefits do my survivors receive?**

### **If you die before retirement**

If you die before you retire, your surviving spouse, or if none, your minor children will receive a benefit calculated as if you had:

- elected Option 2: Joint and 100% Survivorship; and
- separated from service on the date of death.

If your spouse dies while receiving a survivor's retirement benefit and you have a minor child or children, the children will continue to receive

the benefit that was being paid to your surviving spouse. The benefit will be shared equally among the children and paid until they reach the age of 18. If you have no surviving spouse or minor children at the time of death, no defined benefit will be paid (see page 4 for defined contribution information).

### **If you die after retirement**

If you die after you begin retirement, your survivors are eligible to receive benefits according to the retirement option that you choose see “What are my benefits options?” on page 13.

### **Designating a beneficiary**

If you choose a survivor benefit option (Option 2, 3 or 4) at retirement, you must select a person as your beneficiary. You may not name a trust, your estate or an organization. If you choose Option 1, benefit payments stop after death.

### **If you die as a result of an injury sustained in the course of employment**

If an active member or disability retiree dies as a result of injuries sustained in the course of employment and the Department of Labor and Industries has determined eligibility for the payment, DRS will pay a \$150,000 death benefit to the member's designated beneficiary.

If an active member or disability retiree dies as a result of injuries sustained in the line of duty as a public safety officer, ongoing benefits received by the member's survivors may qualify for non-taxable status under federal and state law. Eligibility to receive benefit tax exemption will be determined by DRS.

## **What if I work after retirement?**

Your benefits may be affected if you work for a Washington public employer after retirement.

In some cases, depending on the position and the extent to which you work, your retirement benefits may be suspended. Under state law, the employer is required to report your hours to DRS. In most cases, you can work up to 867 hours in a calendar year before your retirement benefit is suspended. The PERS publication, *Thinking About Working After Retirement?* provides a summary of the laws regarding post-retirement employment.

## Why does DRS need my Social Security Number?

**D**RS sometimes requests that you provide your Social Security Number when you are conducting business with the agency. DRS needs your Social Security Number to report disbursements to the IRS. Under 5 United States Code (U.S.C.) Section 552(A), DRS is required to make the following disclosure when requesting that information:

- 26 U.S.C. Sections 6047(D), 6041(A), and 6109(A)(3) authorize DRS to solicit your Social Security Number.
- DRS uses your Social Security Number to ensure that any amounts disbursed under your account are properly reported to the IRS and as a reference number for tracking all data with regard to your retirement account.
- Routinely, DRS uses the Social Security Number as the identifying number for the member file.
- If you do not provide your Social Security Number, DRS cannot guarantee that the information you provide will be properly matched with your member records. This is a particular risk if your name is a fairly common one. Failure to provide your Social Security Number may also result in misreporting to the IRS any disbursements you receive, which may result in adverse tax consequences for you.

- Because DRS uses your Social Security Number to report disbursements to the IRS as required under federal law, the disclosure of your Social Security Number is mandatory.
- DRS will not disclose your Social Security Number to any party unless required by law.

## Taxation and assignment of benefits

### Federal income taxes

**M**ost of your retirement benefit is subject to federal income tax. The only tax exempt portion is the part that was taxed before it was contributed. Many employers deduct contributions before withholding federal income tax.

After you retire, PERS will notify you of the portion of your contributions that has already been taxed. The IRS refers to the taxed amount as your “cost.” You must complete the W-4P form indicating how much of your monthly benefit should be withheld for taxes. If you do not, PERS will follow IRS rules requiring withholdings as if you are married and claiming three exemptions.

### Assignment and attachment of benefits

Retirement benefits are not generally subject to assignment or attachment. However, payments you receive in the form of retirement benefits, or as a withdrawal of your contributions may be subject to court and administrative orders for payment of spousal maintenance and child support, or payment of any orders authorized by federal law.

DRS is authorized to divide pensions between members and ex-spouses based upon court-ordered property division. The defined contribution account will be split after the final order is submitted to DRS. If the divorce decree complies with the applicable law, the property division payment will be sent directly to the ex-spouse.

For more information, refer to the DRS brochure, *Can My Retirement Money Be Attached?* available from your employer, by calling DRS or visiting the DRS Web site (<http://www.drs.wa.gov/member/attached.htm>).

## Administrative information

### Payment of retirement benefits

Your retirement benefit accrues from the first day of the month following the date you terminate employment. Your benefit is paid at the end of each month and, in most cases, can be deposited directly into your financial institution's account.

### Keeping DRS informed of your mailing address

After you retire, it is important that you keep DRS informed of your current mailing address, even if you have your check deposited directly in your bank or credit union account. This way you can be assured of receiving information about your benefits and income taxes in a timely manner.

### Administration of the system

PERS is administered by DRS. The Director of the Department is appointed by the Governor. The current record keeper is ICMA-RC.

### Benefits adjustments

If you receive an overpayment of your retirement benefit or withdrawal, DRS requires that the overpayment be repaid. If there is an underpayment, DRS will correct the error and pay you in full.

### Petitions and appeals

Under DRS' internal review procedures, all "appeals" begin as "petitions." You may challenge a decision of a DRS administrator by filing a petition within 120 days of your receipt of the decision. The petition will be reviewed by DRS' Petition Examiner.

To file a petition, complete and submit a detailed statement of:

- the relief that you are requesting;
- the facts relating to your petition, including any relevant documents or sworn statements that support your request for relief;
- the legal basis for your petition, including any relevant legal provisioner or precedents;
- the name and address of your legal counsel, if you choose to be represented; and
- your name, address, Social Security Number and signature.

The Petition Examiner will ask for relevant information from the involved parties. Usually, this means you, DRS and possibly your employer. After review, the Petition Examiner will enter a written decision and mail that decision to you.

If you are not satisfied with the petition decision, you may file an appeal within 60 days of receipt of the decision. Included with your petition decision will be information describing how to file an appeal. An appeal will be heard by either DRS's Presiding Officer or an Administrative Law Judge.

## When should I start planning for retirement?

Planning for retirement is an on-going process. The sooner you start, the more likely you are to enjoy a comfortable and successful retirement. Here are some simple things you can do to help build your retirement plan:

- Review your defined contribution account to determine how much income your account will generate and which payment option will best meet your retirement needs. Contact the record keeper or visit their Web site for payment options and defined contribution estimates (see page 20).
- Make sure the correct beneficiary is listed on your Beneficiary Designation Form.
- Early in your career attend one of DRS' Retirement Planning Seminars. These full-day sessions feature qualified speakers on a number of retirement subjects and are free of



charge to all state retirement plan members. The dates and locations for these seminars are announced in the member newsletter, *Retirement Outlook*, and on the DRS Web site (<http://www.drs.wa.gov>). Over the course of your career you may want to attend several seminars.

- Learn more about investing at an Investment Education Seminar. Seminar locations can be found online in the PERS Plan 3 Investment Education Web site (<http://www.icmarc.org/pers/>).
- Study this handbook as a resource to your state retirement benefits, and attend the DRS Rights and Benefits Workshops to hear explanations of your state retirement plan. Benefits Workshops are included in Retirement Planning Seminars.

### As you get closer to retirement

Consider the following:

- Contact the Social Security office periodically to review your file's accuracy. The toll-free telephone number for Social Security information is 1-800-772-1213. You can also obtain valuable information about Social Security and Medicare by visiting the Social Security Internet site (<http://www.ssa.gov>).
- Obtain a copy of IRS Publication 575, *Pensions and Annuities*, also available on the Internet ([http://www.irs.gov/forms\\_pubs/pubs.html](http://www.irs.gov/forms_pubs/pubs.html)).
- As you approach retirement you may want to contact the record keeper to ensure your investment choices are appropriate for the length of time you have before retirement.
- If you are within a year of your retirement date, request an estimate of your benefit from DRS. DRS will return a retirement application with your estimate. Or use the online estimator on our Web site.

### Applying for retirement

To begin your retirement from Plan 3, call to request a *Plan 3 Request for Payment of Defined Contribution Funds* from the record keeper. You can complete the entire retirement process through the mail (see DRS contact information on page 20).

If you prefer to visit DRS to review your account information and retirement options, Retirement Services Analysts are available to assist you. Please call for an appointment.

If you write to DRS for specific information about your pension account, be sure to provide your Social Security Number and signature.

## Am I eligible for health insurance coverage after I leave service?

If your employer offers continuing health care coverage through the Public Employees Benefits Board (PEBB), then you may be qualified for health care coverage when you retire.

If qualified, you must:

- Elect PEBB coverage within 60 days of separation from employment; and
- You must be 55 years of age and have 10 years service credit.

To find out if you are qualified for PEBB benefits, contact your employer. You can also contact the Health Care Authority at 1-800-700-1555, or their Web site (<http://www.wa.gov/hca/pebb.htm>).

## Where to find more information

For more information about your rights and benefits under this Plan, write:

Department of Retirement Systems  
Public Employees' Retirement System  
PO Box 48380  
Olympia, WA 98504-8380

Be sure to include your Social Security Number to identify your account, and provide as much detail in your letter as possible. An individual appointment with a PERS Retirement Services Analyst

can be arranged. Office hours are 8 a.m. to 5 p.m., Monday through Friday, except on state holidays.

### Keeping up-to-date with Plan 3 activity

As a Plan 3 member, quarterly statements that provide your account balance and a variety of basic information about your defined contribution account will be mailed to your home.

You will also receive an annual statement of your service credit earned with the defined benefit component. Annual statements are mailed to your employer for distribution to you. If you are actively employed, contact your employer to update your address. Inactive members must contact the record keeper with correct address information.

The DRS *Retirement Outlook* is delivered to your employer for distribution to all members three times a year. This newsletter updates you about any changes to your retirement system, and provides schedules for upcoming workshops and seminars, and other general retirement information.

### Internet access to PERS Plan 3

PERS Plan 3 information is available through the PERS Journey to Retirement portal at:

<http://www.wa.gov/drs/member/pers/2or3>

Three types of information are available through the portal:

- PERS Plan 2 or Plan 3 Transfer Decision and New Member Plan Choice information.
- PERS Plan 3 Investment Education and online access to defined contribution account.
- Access to the DRS Web site and all of the brochures mentioned in this handbook.

### Other PERS Plan 3 publications

Publications about the defined contribution component are available through the record keeper and your employer, including:

- *PERS Plan 3: Investment Education, Journey to Retirement* packet
- *PERS Plan 3 Contribution Rate Brochure*

- *Plan 3 Investment Guide*
- *Plan 3 Investment Options*
- *VantageLine/VantageLink*

Publications about the defined benefit component are available through DRS, the DRS Web site and your employer, including:

- *PERS Disability Benefits*
- *Thinking About Working After Retirement? (PERS Plan 2 & 3)*
- *What is Dual Membership and How Does it Affect Me?*
- *A Guide for Elected and Appointed Officials (available on the DRS Web site only)*

### Basic forms a new Plan 3 member completes

Upon hire, your employer should provide the following forms:

- **Beneficiary Designation Form**
- **Plan 3 Member Information Form** (to select a contribution rate and investment program)

## Contact information for PERS Plan 3

### Defined Benefit Component

(Questions and/or requests for estimates, retirement, disability, annual statements, service credit)

DRS	1-800-547-6657
DRS Local	360-664-7000
DRS TDD Line	360-586-5450

### Defined Contribution Component

(Questions about account balance, investments, withdrawals, quarterly statements, allocations, fund transfers)

Record keeper	1-888-711-8773
Record keeper TDD Line	1-800-669-7471